
Improvement of Financial Literacy as a Crucial Factor of Economic Development

N.G. Vovchenko¹, S.S. Galazova², E.A. Danchenko³, O.B. Ivanova⁴,
E.D. Kostoglodova⁵

Abstract:

Issues on the public financial literacy are highly relevant in the context of expanding opportunities of financial services used, increasing the complexity and the appearance of new financial tools. Ensuring personal financial security is becoming an important factor of economic development and public welfare improvement.

Nevertheless, a low level of financial literacy negatively impacts personal welfare and a financial potential of households, deteriorates the resource base of financial institutions, hampers the financial market development, retards investment processes in economics and leads to the aggravation of the socio-economic situation of the country.

In this regard, the following tasks have been set in this study. To consider a conceptual characteristic of the notion “financial literacy” and its components – fiscal and taxation literacy; study the contemporary international and Russian practice of financial literacy improvement as a factor for the economic development of a country.

The article substantiates the following: the constructive use of the best practices should create real opportunities for raising the level of financial literacy of the population in the Russian Federation, increase confidence in the financial system, reduce the financial risks of consumers of financial services and improve the population's welfare.

Keywords: Financial literacy, fiscal literacy, open budget, budget for citizens, local budget, municipal finance.

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¹D.Sc., Professor, Department of Finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation, e-mail: nat.vovchenko@gmail.com

²D.Sc., Professor, Vice-Rector for training scientific and pedagogical staff and supplementary education, Khetagurov North Ossetian State University, Vladikavkaz, Russian Federation.

³Ph.D., Associate Professor, Department of Banking, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

⁴Ph.D., Professor, Department of Finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

⁵Ph.D., Associate Professor, Department of Finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

1. Introduction

In the current context, serious and targeted changes are needed in the sphere of increasing the financial literacy of the population. The awareness of the need to improve the financial literacy of the population in many countries around the world has led to the formation of national strategies or financial education programs initiated by the state. In recent years, increasing attention has been paid to raising the level of financial literacy in the Russian Federation which is regarded as an important factor of the economic development of the country and the financial potential of the households (Nechaev and Antipina, 2016; Ivanova *et al.*, 2017b).

Priority target groups are emphasized in national strategies of almost all countries. As the analysis of international experience shows, the preference is mostly given to such target groups as pupils of schools and higher educational institutions, working population, citizens of the pre-retirement and retirement age. The creation of the foundations of the formation of financially literate behavior of the population predetermines the need to improve the state financial and budgetary policy, whose priority task is to ensure the transparency of budgets of all levels and the budget process. The solution of the task is being realized both in the direction of openness of budgetary parameters and in the ability of citizens to directly participate in the formation of the budget (Vovchenko and Panasenkova, 2013; Albekov *et al.*, 2017).

Fiscal transparency significantly reduces fiscal risks and facilitates the increase in the efficiency of the public finance sector. Access to quality information on the sustainability of public finance creates the conditions for effective planning in the real sector of the economy, positive economic, social and environmental measures of a fiscal policy impact on economic growth. At the same time, it is necessary to take into account possible risks that may be connected with the macroeconomic situation (worsening of the political situation, the growth of social tension in the society, changes in the external economic situation, etc.), as well as risks associated with the development of the Russian financial market (bankruptcy, licenses revocation, high volatility of the financial market, low social responsibility of financial market entities, the introduction of new financial services into the Russian financial market), etc. Risk management is the continuation of fiscal forecasting and it is used in budget procedures to respond to challenges connected with the uncertainty of the internal economic environment and the influence of external factors. The public should be informed with qualitative financial and non-financial information on the state of the fiscal and budgetary spheres, budget risks, state assets and liabilities.

However, the level of financial literacy and financial culture in the Russian Federation as a whole is still rather low and requires long-term systematic and coordinated work of all stakeholders. The disadvantages are the following:

- the skills of personal financial planning and the formation of financial reserves in case of unforeseen circumstances are still absent for the majority of Russian households;

- there is a low level of financial discipline and responsibility for risks associated with the independent selection and use of various financial services and the use of financial tools;
- the financial market has no permanent practice of how to inform the public and consult clients in financial matters with the purpose of explanation of the risks associated with a particular financial product;
- some financial organizations do not fully disclose information on the composition of payments included in the calculation of the full cost of credit;
- there are disproportionately high fines for late payments;
- credit organizations are offered insurance as an additional service for credit processing, thereby reducing public confidence in the activities of participants in the financial market and the ability of consumers to consciously and responsibly take their own financial decisions.

2. Theoretical, Empirical, and Methodological Grounds of the Research

Financial literacy of the population is a complex concept. In a broad sense, it is about the ability of the population to rationally manage the finances of households (keep records of income and expenditure, competently implement short-term and long-term financial planning), being aware on the state of legislation and the situation in financial markets and to understand the features of various financial products and services (Ivanova *et al.*, 2017a).

In the theoretical aspect, financial literacy in terms of its conceptual characteristic can be congenital, acquired and rejected. Congenital financial literacy is characterized by the ability of a person to estimate the amounts of personal incomes and expenditures and determine the tactics and the strategy of manage them, relying, as a rule, on the experience of parents and close people of the person from birth. Acquired financial literacy is most commonly the ability to adopt methods of personal finance management from surrounding people (school, universities, work). These types of financial literacy are closely interrelated and often complement each other during the life cycle.

The most difficult option for the economy is the third type – rejected financial literacy which can be understood as the rejection of knowledge as a consequence of psychological immaturity manifested in the subconscious unwillingness of the individual to enter an independent life and make decisions. Statistics shows that the potential share of such population is 13%. Unfortunately, the fact that some part of the population even knowing the basics of the economy has not learned to apply this knowledge in practice cannot be excluded. Perhaps this part of the population will apply the skills obtained in the process of financial education, but on the condition that these skills will be taken at the conditioned reflex level.

From the methodological standpoint, financial literacy can be represented by two types: 1) literacy as the possession of a basic conceptual apparatus in the field of

financial relations; 2) literacy as a competence, as the possession of skills in the use of communication tools (civil, information, digital, legal, etc.). At the same time, an emphasis on the development of the second type of financial literacy appears to be a priority in the current context, since it implies mastering the key competencies of the 21st century.

Table 1. *The European framework of key competences*

KEY COMPETENCIES	UNIVERSAL SKILLS
Communication in the native language	Ability to study
Communication in foreign languages	Social and civil literacy
Mathematical literacy, basic scientific and technological literacy	Initiative and entrepreneurial capabilities
Digital and ICT-literacy	Cultural awareness and self-expression

The concept of financial literacy covers fiscal and taxation literacy. Fiscal literacy is a combination of knowledge of the main provisions and legislative acts on the budget system, its structure, spheres and parts and presupposes the competence of citizens in the formation and execution of budgets of the budgetary system of the Russian Federation, that is, the possibility to apply the available theoretical knowledge in practice.

Taxation literacy should be regarded as a necessary competence of modern man which ensures the effective use of financial resources and allows preventing the realization of risks of income losses, reputation and freedom of the taxpayer. The relevance of solving the problem of increasing taxation literacy is directly related to the fact that a significant part of the population has a very limited set of knowledge about the taxation system, their rights and obligations as taxpayers.

The assessment of the level of problems arisen in the course of the financial literacy tool implementation can be grouped in the following areas. From the point of view of theoretical and methodological approaches, this group of problems is related to the fragmented nature of teaching the basics of financial literacy in the educational institutions, the lack of clear and accessible training programs and educational materials for all segments of the population (primarily for schoolchildren and students), the lack of qualified specialists teaching the basics of financial literacy. This entails the lack of skills and competencies required for effective management of personal finances, making a deliberate choice of financial services, interaction with financial institutions, agencies and organizations involved in the protection of rights of the financial services consumers. The second group of problems is related to the organizational and legal support of the foundations of financial literacy. In particular, with:

- the lack of a mechanism of interaction between the state and society which ensures improvement of financial literacy of the population and the development of financial education of citizens;
- the imperfection of legislative and regulatory support;
- the lack of a clear distribution of powers and responsibility for making financial decisions, both at the individual level and at the level of participants in the financial market;
- low awareness of the protection of consumer and pension rights of citizens;
- the inadequate level of resource (financial, staff, information and technological) support of necessary programs and activities.

Thus, the increase of financial literacy in the Russian Federation is an actual and necessary measure for stimulating economically rational behavior of the population and as a result of improving its welfare, the quality of life of citizens, including improvement due to the use of financial products and services of appropriate quality.

3. Results

The main aspects in increasing the financial literacy of the population in the Russian Federation are realized within the framework of the joint project of the Ministry of Finance of Russia and the World Bank. The goal of the project is to form a responsible civil position through broad participation of the population in the budget process.

In recent years, much work has been done to increase the information openness on the formation and execution of the budget, including the introduction of a procedure of public discussion of the draft budget and the report on its implementation at different levels, regular publication of detailed information on budget execution on the official website of the Ministry of Finance of the Russian Federation and the Treasury of Russia, the publication of long-term targeted programs and government programs in the printed media and on official websites of public authorities. As a result, Russia entered top ten countries in terms of the budget openness index of the International Budget Partnership.

An important step in this direction was the implementation of the Concept for the creation and development of the state integrated public finance management information system “Electronic Budget”, which envisages a set of measures aimed at increasing the transparency of information on public finances at all stages of the budget process. Since 2013, the “Budget for Citizens” is to be published at all levels of governance - federal, regional, municipal - providing information on the formation and execution of the budget in a visual, citizen-friendly manner. In order to increase the publicity of budget drafting, the practices of developing regional programs “People’s Budgeting”, “Budget for Everyone”, programs of local initiatives support, initiative budgeting, and public opinion surveys were widely applied.

The practice of initiative budgeting involves not only participation in the adoption of budget assignments and monitoring their implementation, but also possible adjustments to the process of implementing budgets at the regional and municipal levels. Such an opportunity provides close interaction of financial bodies with the population in the process of planning and execution of budgets, that is, the continuous participation of citizens in the processes associated with the implementation of democracy. Initiative budgeting is becoming an essential element in improving the efficiency of public finances. To provide feedback to the users of the “Budget for Citizens”, the use of the “Budget calculator” is envisaged, its purpose being to promote a dialogue between society and the authorities by means of the introduction of modern information technologies; improving citizens' understanding of the fiscal policy implemented at the regional level. The tasks of creating a budget calculator are as follows:

- simulation of the interrelationships of the main parameters of the budget - tax rates, incomes, expenditures, the volume of debt, as well as the interrelationships of budget expenditures and the achieved quantitative and qualitative results of the activities undertaken by the authorities and local self-government bodies in realizing the goals they are facing;
- designing an interactive computer model of a budget calculator;
- ensuring the possibility of using approaches to building a budget calculator model not only at the federal level, but also at the level of federal entities of the Russian Federation and municipalities.

The result of the development of the budget calculator will be an interactive simulation model that allows any user to participate in virtual budget planning. Managing the parameters of the model, it will be possible to see how is depending on the preferences of users, how the indicators of achievement of the goals of social and economic development set in state programs will change, how taxes will have to be changed or tax exemptions will be abolished, how the level of debt will change and what positive and negative effects for the social sphere and the economy as a whole will arise.

Ultimately, the budget calculator will allow citizens to understand the interrelationships of budget parameters, the main directions of budget policy, assess the capabilities of the budget system, simulate and offer their own way of the determining sections of spending budget funds, and also understand whether the new proposed version of the budget will be better than the basic one in terms of achieving results. The use of the budget calculator will lead to an increase in the financial literacy of citizens in terms of the principles of public finance management. In turn, the authorities monitoring the preferences and opinions expressed by citizens with the use of the budget calculator will be able to better understand the needs of the population and adjust budget decisions. They will also have an opportunity to inform citizens more widely and efficiently about the fiscal policy, the structure of budget expenditures and the principles for adopting budget decisions.

An important aspect in raising the level of financial literacy should also be considered the formulation of program-targeted social budgets which can solve a number of problematic issues in making sound decisions in financing social policy. The Russian practice has a methodology for the development of the “Child's Budget” and the “Pensioner's Budget” proposed (Cristea and Thalassinou, 2016). Similar budgets can be developed for other categories of the population – for the disabled, public sector employees, the unemployed, etc. Currently the “Child's Budget” is the most developed budget which represents not only the interests of children and parents, but also improves the management of wages.

The development of the “Pensioner's Budget” is understood as the accumulation of public expenditures allocated to the implementation of rights and guarantees of pensioners in the field of living standards. In addition, it is feasible to take into account the contributions to the pension co-financing system and investment income due to the cumulative component, investments in government securities, loans and other state assets in a complex of public expenditures on pensioners. The working and non-working pensioners or a single pensioner living in the family can have this budget formed, and it influences the composition and structure of incomes of the “Pensioner's Budget” and the sections of its expenditure.

At the same time, there is no complete survey of the family budgets of pensioners in the Russian statistics, which naturally makes it difficult to formulate this budget on the basis of reliable data. All this shows that within the framework of program-targeted budgeting and effective social management it is useful to compile a social classification (into social groups, including pensioners, families with children, etc.). The formation of social program-targeted budgets can be organically reflected in the “Budget for Citizens” and activate the efforts of the population in the system of initiative budgeting at all its levels. An effective tool to increase financial literacy should be considered holding public hearings of the draft budget. In case of the full use of this tool the authorities receive feedback on important issues in the management of public and municipal finances. It is obvious that it is necessary to expand the existing opportunities of public discussion of the decisions made to manage public finances, which is especially relevant in the context of the recent increase in civil activity of the population and an increase in the interest in the issues of state and municipal management. There is no doubt that there is a high potential for public hearings of regional and local budget projects which will help to improve the degree of elaboration of documents and their social orientation.

4. Conclusions and recommendations

Increasing the level of financial literacy of the population, the quality of financial education and informing citizens about personal finance management requires solving a number of problems in order to ensure economic growth and improve the financial welfare of the population, ensure personal financial security and protect the rights of consumers of financial services. This will be facilitated by:

- development and practical implementation of a set of financial, organizational, educational, informational and other activities aimed at increasing the level of financial literacy of the population;
- ensuring that citizens obtain accessible, objective and qualitative information in the field of financial literacy and protection of consumers' rights while using financial services in accordance with the stage of their life cycle, life situations and needs;
- ensuring greater accessibility of financial education in various forms for target groups, especially for socially vulnerable ones;
- participation of federal entities of the Russian Federation in solving problems related to the lack of financial literacy of the Russian population, as well as active involvement of financial sector organizations, other commercial companies, educational and non-profit organizations and volunteers in solving these problems;
- ensuring the complexity, accessibility and effectiveness of government measures to increase financial literacy;
- attraction of additional financing for the development of the system of financial education and information through the initiation of targeted programs and attraction of non-state structures to joint measures facilitating the improvement of financial literacy of citizens;
- an increase in the level of knowledge and involvement of citizens in the process of pensions' formation.

In accordance with the best practice standards for improving budget procedures for greater openness, transparency and accountability, an increase in the level of budget literacy of the population, it is necessary to ensure work in the following areas:

1. To assist in educating the population of public and legal entities by means of holding seminars, lectures, round tables dedicated to the budget and the budget process, tax policy under the supervision of specialists of financial bodies, posting training materials on the official portal, creating opportunities for dialogue with state authorities and local government on problematic issues.
2. To promote the formation of the maximum interest of the population, an active position, readiness to have a dialogue with the authorities and management, explain the advantages of opportunities to participate in the development of budget decisions and control of the progress of their implementation.
3. Continue posting information on the distribution and use of budgets of various levels in a clear format, which will allow each resident to analyze what tasks budget funds are allocated to, how the budgetary policy influences economic development, and improves the quality of life of the population.
4. To formulate social budgets in the system of program-targeted budgeting, which should be aimed at taking into account the interests of the public to publish information on the state of the "Child's Budget", "Pensioner's Budget", etc., on the websites of the territorial authorities. This will allow increasing the activity of the population in the system of proactive budgeting and solving social and budget policy issues in the framework of financial literacy.
5. To develop the practice of "initiative budgeting", introduce participatory

budgeting by increasing the public participation of the municipality's population in the decision-making process on the distribution of state and municipal finances, the development and examination of draft normative legal acts, discussing the purposes and results of using budget funds. This will be facilitated by the development of a set of measures to improve the organization of public hearings, the creation of a methodological base for participatory budgeting practices, training of state and municipal employees in various forms of public participation in public hearings, and the development of public control mechanisms.

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